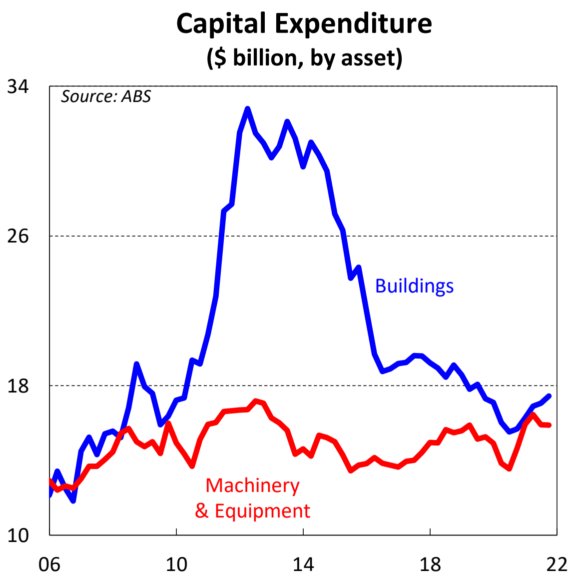
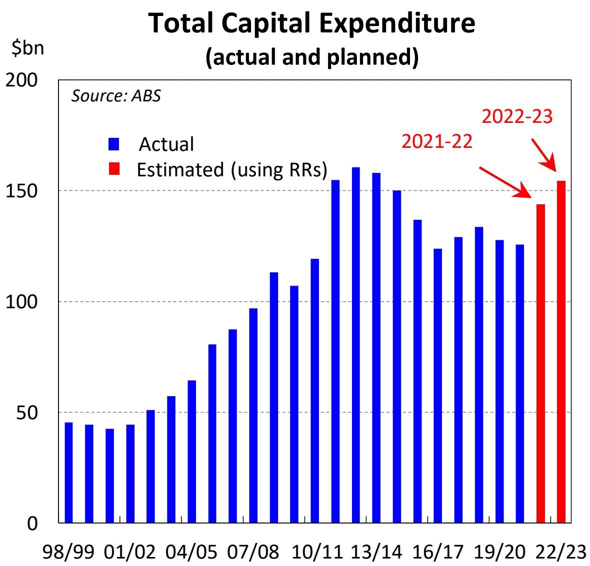
Thursday, 24 February 2022

Private Capital Expenditure

Plans Point to Solid Investment Pipeline

- **New private capital expenditure (capex) ticked up 1.1% in the December quarter, following a 3.3% decline in the previous quarter alongside the Delta lockdowns. Investment was still 9.8% higher over the year and spending was broadly in line with pre-pandemic levels.**
- **Spending was weaker-than-expected as machinery & equipment spending edged down 0.1% in the quarter, perhaps reflecting lingering effects from the Delta lockdowns. Supply disruptions may have also been a factor. Spending on buildings rose 2.2% in the quarter.**
- **By industry, the weakness was concentrated in the non-mining industry, where spending only rose 0.5% in the quarter. Spending in the mining sector rose 2.6% in the quarter.**
- **Capex growth was mixed by region in the quarter. Growth was strongest in the ACT and NSW, while at the same time there were sizeable declines in Tasmania and WA.**
- **Spending plans continue to point to strong growth in investment over the coming years. Estimate 5 for expenditure plans over 2021-22 came in at $140.7 billion, 15.9% higher than Estimate 5 in 2020-21.**
- **We also received the Estimate 1 for 2022-23, which came in at $116.7 billion. This is 10.8% higher than Estimate 1 a year ago.**
- **The outlook for business investment is robust. Generous tax incentives are slated to remain in place until mid-2023 and will continue to bolster investment. Plus, businesses balance sheets are in good shape and businesses remain mildly optimistic despite challenges.**





Actual Spending

New private capital expenditure (capex) ticked up 1.1% in the December quarter, following a 3.3% decline in the previous quarter alongside the Delta lockdowns. The data are another piece in the puzzle ahead of the release of December quarter GDP next Wednesday.

Capex rose 1.1% in the quarter, falling short of market expectations of a 2.5% gain. Ahead of the Delta disruptions, investment was growing at a solid clip, alongside the buoyant mood amongst businesses. Accordingly, business investment was still 9.8% higher over the year to the December quarter. Spending was broadly in line with pre-pandemic levels, as at the December quarter of 2019.

- **Machinery & Equipment**

The weakness in spending was concentrated on machinery and equipment, which edged down 0.1% in the quarter, rather than rebounding. This perhaps reflects lingering effects from the Delta lockdowns. Supply disruptions may have also been a factor. Over the year, spending on machinery and equipment was still 8.4% higher, reflecting both the recovery following the lockdowns in 2020 and generous tax incentives, including temporary full expensing and temporary loss carry-back measures.

- **Buildings & Structures**

Meanwhile, spending on buildings and structures rose 2.2% in the quarter, to be 11.2% higher over the year, and above the pre-pandemic level. In addition, the data from the construction work done survey released yesterday also feed into GDP. The data on construction work showed that private infrastructure activity work fell 3.5% in the quarter, as the Delta lockdowns continued to weigh, particularly in Victoria.

All in all, these data suggest that business investment won't be a big contributor to the rebound in GDP growth expected in the December quarter.

By Industry

By industry, the weakness was concentrated in the non-mining industry, where spending only rose 0.5% in the quarter. Investment in non-mining industries has been hit harder during the pandemic than the mining sector, which has been shielded by strong global demand for commodities. Indeed, spending in the mining sector rose 2.6% in the December quarter.

Turning to non-mining sectors, the weakest industries were professional, scientific & technical services; utilities; wholesale trade, transport; financial & insurance services; real estate and other services. Investment declined in the quarter across each of these sectors. At the other end of the spectrum, investment in education & training, accomodation & food services and administrative & support services grew by more than 10% in the quarter, partly reflecting the unwind of weakness in the September quarter.

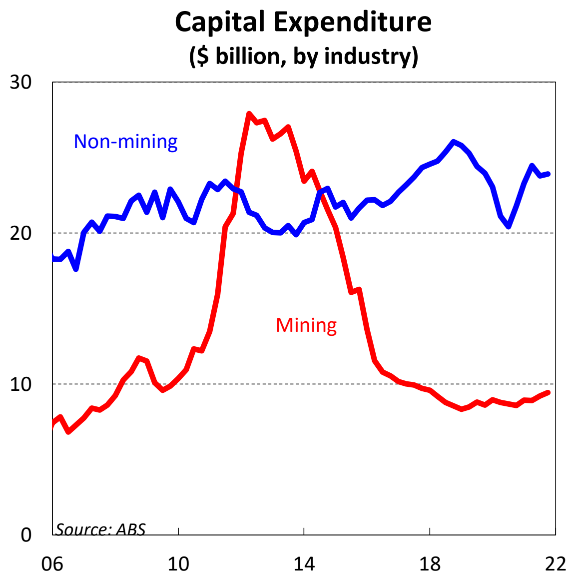
In year-ended terms, non-mining investment was up 9.7% and mining investment was up 10.2%.

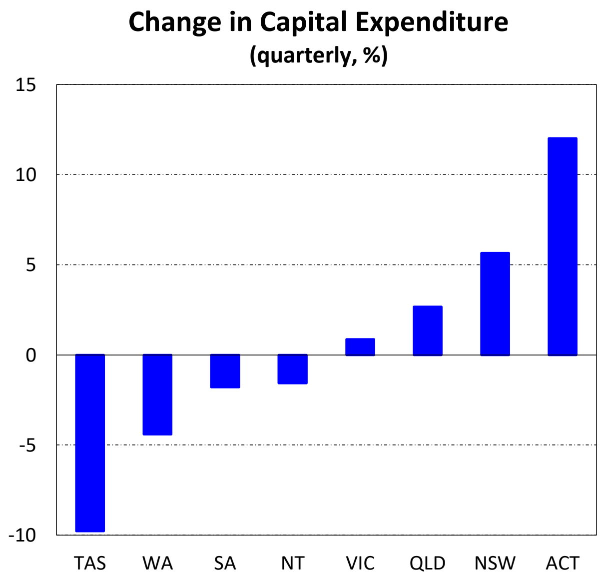
States and Territories

Capex growth was mixed by region over the December quarter, as Delta lockdowns eased across several states and territories. Encouragingly, business investment is above pre-pandemic levels in most states and territories, apart from Victoria and Queensland.

In quarterly terms, growth was strongest in the ACT and NSW, where business investment jumped 12.0% and 5.6%, respectively. Spending also increased in Queensland (2.7%) and Victoria (0.9%). NSW, Victoria and the ACT all benefitted from easing restrictions after lengthy lockdowns. On the other side of the ledger, spending fell from record highs in Tasmania (-9.8%) and SA (-1.8%), partially offsetting gains. Elsewhere, spending also fell in WA (-4.4), and the NT (-1.6%). Note, the change in spending in the smaller regions of Tasmania, the ACT and the NT tends to be volatile quarter to quarter.

In annual terms, spending increased across all states and territories for the first time since March 2006. Annual spending growth was strongest in the ACT (35.9%), Tasmania (30.7%) and SA (14.3%), while growth was also solid in Victoria (13.0%) and NSW (8.8%).





Spending Plans

Spending plans continue to point to strong growth in investment over the coming years.

Estimate 5 for expenditure plans over 2021-22 came in at $140.7 billion. Estimates tend to increase through the year as companies add to their plans. What is more helpful in assessing the outlook for investment is the comparison with Estimate 5 for 2020-21. On this basis, Estimate 5 for 2021-22 was 15.9% higher than Estimate 5 in 2020-21. This is down a little from Estimate 4 on Estimate 4, which pointed to 19.6% growth in 2021-22. Nonetheless, it is a solid result.

We can also assess the strength of investment plans by adjusting the numbers by realisation ratios – which are calculated by considering how investment plan estimates have translated into actual investment spending over previous years. We calculate that Estimate 5 points to about a 13.7% increase in spending in 2021-22, which is broadly in line with our calculations for Estimate 4.

We also received the Estimate 1 for 2022-23, which came in at $116.7 billion. This is 10.8% higher than Estimate 1 a year ago. This points to another year of strong growth in investment, consistent with our expectations. However, it is worth flagging that Estimate 1 and Estimate 2 can be unreliable estimates of actual spending.

Outlook

Business investment rose off the back of the Delta lockdowns in the December quarter, although the uplift was a bit slower than anticipated. Regardless, we are still expecting solid GDP growth in the December quarter, around 2.8%, following a 1.9% contraction in the September quarter. This is expected to be led by the strong bounce in consumer spending.

Encouragingly, spending plans point to strong growth in investment over the next year or so. Generous tax incentives – namely temporary full expensing and loss carry-back measures – are slated to remain in place until mid-2023 and will continue to bolster investment. Businesses balance sheets are also in good shape.

Plus, business surveys and our liaison suggest that businesses are mildly optimistic. On one hand, staff shortages remain a challenge and businesses are eyeing growing price pressures and the prospect of rate hikes. But at the same time, strong underlying momentum in the economy will support revenues and the reopening of international borders will help to alleviate some staffing challenges.

Overall, looking past the short-term wobbles, the outlook for business investment remains robust.

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